

DGA MAGAZINE

[Current](#) | [Archives](#) | [Interviews](#) | [Subscription](#) | [Advertising](#) | [Search](#)

JANUARY 2004

DGA MAGAZINE

CRAFT



Maximizing Distribution

-by Peter Broderick

click images for larger view and details

Editor's note: *This article is intended to give DGA independent directors interesting and varied perspectives on the business aspects of filmmaking and, as such, is the opinion of the author, not necessarily the DGA. Not surprisingly, distribution of one's film comes up time and again as a concern for the independent filmmaker. Here is one expert's perspective on approaches for filmmakers to consider when thinking through different options.*



Today it is even harder to bring an independent movie into the world successfully than it is to make one. The traditional system for distributing independent films is in critical condition. But as old distribution paths have become more treacherous, promising new ones are opening up. The challenge for every independent is to understand the current distribution crisis, assess older and newer options and design approaches that will maximize their chances of reaching the widest possible audience.

While access to production improved dramatically for independent filmmakers during the past five years, thanks to the advent of affordable digital cameras and editing software, access to distribution worsened. As the costs of marketing and distribution rose, studios increased their dominance over theatrical distribution. Distribution advances paid to distribute independent films declined along with the willingness of distributors to take risks on independent features without stars or other pre-sold elements. And when such films found distribution, their fate was often determined by the size of the audience their first weekend in theaters. Unless a substantial crowd appeared, their theatrical life was usually short, undercutting their ancillary possibilities. While every year a handful of independent features succeed in distribution, these are aberrations that belie the fate of the hundreds of films that find little or no distribution.

The Overall Deal

Peter Broderick
upwards@earthlink.net
www.peterbroderick.com

For years independents have dreamed of selling their films to distributors that can get them into theaters and video stores across America. They have hoped to make an overall deal through which a distributor acquires all North American rights for 15 to 25 years. While sometimes distributors pay substantial advances for such rights, these days a token advance is more common — and sometimes there is no advance.

The possible benefits of making an overall deal are alluring: A distribution company with expertise, experience, a full staff, and relationships with exhibitors and press, will handle and finance the distribution of your film. This could mean a wide release, press enthusiasm, awards, substantial financial returns and opportunities to make more movies.

However, it is essential that filmmakers also understand the potential problems with such deals:

- **Loss of control** – You are giving away control of your film's North American distribution for at least 15 years. While you may have some input, contractually the distributor will have the power to make all decisions about the marketing and distribution of your film. If the trailer, poster and overall campaign are misconceived, there is little you can do about it, and your film may be irreparably handicapped.
- **Loss of faith** – If your distributor loses faith in your film before its theatrical release and keeps postponing it, there may be little you can do. If your distributor gives up on your film after its opening weekend, there may also be very little you can do. Attempting to force the distributor to meet its contractual commitments to open the film in a certain number of cities or spend a certain amount on prints and advertising may be counterproductive.
- **Loss of video opportunities** – Your distributor will determine who will handle every ancillary distribution avenue from cable, satellite and broadcast television to non-theatrical and educational distribution. In most cases the ancillary area with the greatest revenue potential is video. But the choice of which company will have the video rights will not be based on which company could do the best job with your film. It will be determined by corporate structures and relationships. Your overall distributor may have a video subsidiary or affiliate, or may have an output deal with a particular video company.
- **Loss of revenues** – It is possible in overall deals for distributors to receive substantial revenues from distribution fees and to have a substantial portion of their expenses reimbursed without any money being returned to the filmmakers. When filmmakers do receive revenues, they are often insufficient to pay their deferrals and repay their investors. Distributors are usually paid distribution fees off the top, and next have their expenses (and the advance if any) reimbursed. All revenue streams and expenses are normally cross-collateralized. This is a mysterious process in which revenues seem to melt away.
- **Loss of independence** – You become totally dependent on your distributor. You must rely on the company's continuing commitment to your film, its ability to successfully execute the distribution plan, as well as its overall financial viability and the honesty of its accounting and timelines of its payments.

Splitting Up the Rights

Filmmakers unwilling or unable to make a traditional overall deal can split up the distribution rights, dividing some among different companies and keeping others. When considering splitting up rights, the first question to explore is how to handle theatrical distribution. Unless it is decided to skip theatrical entirely and premiere on television or video, the best approach to theatrical requires careful consideration. The basic alternatives are a service deal or self-distribution. In both cases, the filmmaker must find the resources to cover the costs of advertising, marketing and distribution.

The Service Deal – The filmmaker hires a company or an individual to provide a range of distribution services: supervising the creation of the ad campaign, press kit and marketing materials; booking theaters; hiring publicists; shipping prints and collecting revenues. Service deal companies are given the monies to cover distribution expenses, and paid a fee (typically \$50,000 or more), usually against a percentage of revenues (10% to 25%).



By retaining control of the film's theatrical distribution rights, the filmmakers can participate in key decisions on spending, the trailer, the poster, positioning, publicity efforts and timing since the service company is working for them. The filmmakers can decide whether to change the distribution strategy, and whether additional expenditures are justified. While retaining control, the filmmakers have the benefit of the expertise and relationships of the service deal company. However, in an overall distribution deal, the distributor covers the distribution costs and has more leverage booking theaters and collecting revenues (since they supply the theaters with a steady stream of product).

The most famous recent service deal was IFC Films' distribution of *My Big Fat Greek Wedding*, which grossed more than \$240 million in theaters. In 2003, a number of documentaries, including *Capturing the Friedmans*, also did very well in theaters through service deals.

Self-Distribution – Self-distribution may be the only option for filmmakers who can't afford to make a service deal. With this approach, the filmmakers themselves handle as many aspects of distribution as possible. While they may pay for some help (with the trailer or poster), they will try to do everything as cost-effectively as possible. They often rely on grass-roots marketing and publicity techniques. While filmmakers self-distributing start with less expertise and fewer contacts, they may be able to counterbalance these limitations through their passion and persistence.

New Theatrical Options – In the past, most filmmakers interested in doing service deals faced a Catch-22. They had to commit several hundred thousand dollars to such a plan without any certainty about how their film would perform in theaters and how much of their initial outlay could be recouped through ticket sales. It was very difficult for them to secure the money to fund a service deal because they couldn't convince potential P&A (prints and ads) investors that they would get their money back (with a premium) from theatrical and ancillary revenues. The costs were even higher if they had produced their film digitally but not yet made a print, and had to raise an additional \$30,000–\$50,000 to pay for a transfer.

Today, filmmakers interested in service deals or self-distribution have new options. The arrival of digital projection in a growing number of theaters has expanded

Peter Broderick
upwards@earthlink.net
www.peterbroderick.com

opportunities, lowered costs and increased flexibility. Before deciding on an approach to theatrical exhibition and committing a substantial amount of resources, filmmakers can test their film. If they can interest a few theaters in playing their film, they can then get a good sense of the potential theatrical audience. They may be able to test their film at very low cost if they find theatres able to create awareness for their film via the theatres' calendars and mailing lists, as well as free media (reviews and features rather than paid advertising). A trailer is helpful but not essential. If these theaters have adequate video projection, a film print won't be necessary.

If these test bookings go well, then it should be easier to make the case to potential sources of P&A funds. If these bookings go terribly, then a theatrical release may not make sense. If you can't find a few theaters willing to book your movie, theatrical release becomes a non-option, unless you four-wall a theatre and prove otherwise.

If the results of these initial bookings are inconclusive but filmmakers are able to interest more theatres in playing their film, the next best step may be a limited release in five to 10 additional markets. There are currently at least 40 cities where a film can be shown in theaters on video, and this number continues to grow. Landmark is planning to equip all of its theatres with digital projection, and many other exhibitors of independent films are moving in the same direction. The cost of a digital release is lower than the cost of a 35mm release, which includes making and shipping prints (in addition to a transfer if the film was shot digitally).

After playing these additional cities, there should be sufficient information (box-office results and press response) to determine whether a full 35mm national release makes sense. If so, there should be enough evidence to convince potential investors to fund a service deal. If not, the options are to continue rolling out the film digitally or end its theatrical release.

It is now possible to scale the resources spent on a theatrical release to the resulting revenues. Filmmakers able to test their movie in a limited number of theaters can make informed decisions about how much to spend based on projected box office. Previously, filmmakers and P&A investors had to make their best guesses in a vacuum, before a film played a single theatre.

Whether hiring a service deal company or working with an experienced booker, filmmakers should utilize the expertise and contacts of people with substantial distribution experience. They can provide legitimacy with exhibitors, make the best deals, and collect monies more effectively.

The primary goal of theatrical distribution for most independent films is to increase awareness and enhance ancillary revenues. Few independent films make money in theatres. But they can be considered a success if they break even or lose less than they increase ancillary revenues.

Home Video Deals – The ancillary with the greatest potential is usually home video (videocassettes and DVDs). This is the most important distribution route for independents to understand and master. When a video distributor offers to acquire an independent film, it will probably suggest a standard royalty deal with an 85% (distributor)/15% (filmmaker) split in which the distributor covers expenses from its share. The split could be worse or better depending on the circumstances and leverage.



Video distributors will only make offers when they expect to cover their expenses and make a profit. The bulk of production and marketing expenses occur at the beginning of a release, and once they are covered, the distributor is in a great position if it is receiving 85% of all revenues. If the retail price of a film is \$25, and the wholesale price is \$12.50, then the video distributor would receive \$10.63 from each sale, and the filmmaker would receive \$1.87.

Filmmakers may be better off making other types of video deals. They could make a "distribution deal" in which the video distributor gets a distribution fee of 20%–30% and the filmmakers receive 70%–80% and cover all expenses. Another possible deal structure is one in which the video distributor and the filmmakers split revenues 50/50 after expenses are taken off the top. While such deals are not as common as the standard royalty deals, certain companies prefer them and filmmakers should explore such options if they seem appropriate.

Certain deals are better in certain circumstances. If video sales are small, a royalty deal is better for filmmakers since they will receive revenues from the first dollar of sales. If video sales are large, a distribution deal will be better assuming expenses are capped. A 50/50 sharing of revenues may be best if sales are expected to be solid but not spectacular.

Direct Video Sales – Filmmakers may be tempted to hold on to video rights and handle all video sales themselves. But this would only make sense if they were willing to forgo retail and make all sales directly. In most cases they will be better off working with a video distributor who already has relationships with retailers and wholesalers.

Filmmakers may be able to make a significant number of video sales themselves online. During the years they've been working on the film, they have had the opportunity to learn about and interact with the possible core audiences for their film. When making a deal with a video distributor, filmmakers should retain the right to sell their film online if there is a substantial core audience for their film. There are several ways this can be structured. The filmmakers can create a window to sell a "preview" edition of the film on DVD before retail sales begin. This could be a "plain vanilla" DVD with just the film and none of the extras that will be on the retail DVD.

The filmmakers can also arrange to sell copies of the retail DVD online once retail sales begin. They can either arrange to make their own copies, or to buy copies from the video distributor at cost plus some percentage. The video distributor will probably offer to sell them at wholesale minus 10%. The filmmakers will probably offer to buy them for cost plus 10%, and they will negotiate from there.

The filmmakers will be able to target, reach and sell to their core audience more effectively than any video distributor can. The video distributor should be able to reach and sell to a general audience through retail outlets more effectively than the filmmakers can. By supplementing what the video distributor does well, the filmmakers are expanding the pie. Since the filmmakers are doing all of the work to make these additional sales online, they should get the bulk of these extra revenues.



The returns to filmmakers from direct sales they make online are much higher than from those made from retail sales. Assuming a \$25 retail price, a \$12.50 wholesale price, and a 15% royalty, the filmmaker receives \$1.87 from the video distributor for every DVD sold through retail. However, if the filmmaker sells the same DVD directly online, the

Peter Broderick
 upwards@earthlink.net
 www.peterbroderick.com



returns could be 10 times as much. If fulfillment can be covered by the additional shipping and handling charge, and if DVDs can be purchased from the video distributor for \$6 a piece, the profit per sale could be \$19 (not including credit card charges) rather than \$1.87. Even if the royalty was 20% yielding \$2.50 a sale, and the cost of the DVD purchased from the distributor was \$7, the profit from direct sales would be seven times greater. And, of course with direct sales, the money is coming directly to the filmmaker without being diminished by accounting problems or delayed by the time it takes for cash to flow from retailer to wholesaler to distributor to filmmaker.

Core Audiences – A series of questions need to be answered when formulating a distribution strategy for a film. One of the most critical questions: Is there a sizeable core audience interested in buying tickets and/or purchasing the DVD? Varying types of core audiences exist; some are defined by ethnicity, religion or sexual orientation. Others are linked by subject matter that they are passionately interested in — whether it is Tibet, college wrestling or motorcycle racing. For the purposes of formulating a distribution strategy, a core audience must be identifiable and reachable, both of which have been made substantially easier and more affordable with the growth and diversification of the Internet.

Some films have an avid core audience (fan base) that can't wait to see a film and own it. Some films have multiple core audiences. And other films never find one. While researching, preparing, shooting and posting a movie, filmmakers need to be exploring their film's core audience. How can they be reached online and offline? What are the key websites, Web publications, discussion boards and mailing lists? What organizations and clubs do they belong to? What special interest publications do they read? What organized and ad hoc social gatherings do they frequent? Who are the leading figures in the field whose endorsements could be most influential?

During the filmmaking process, the filmmakers will have one to three years to learn how to reach their core audience most effectively. They will also have time to create an effective Web presence. This will enable them to build a valuable mailing list as they are creating awareness for their film within the target.

Reaching a general audience can be very expensive and inefficient, while connecting with a core audience can be done inexpensively and effectively. In the past, many independent film campaigns targeted the general audience, assuming that the core audience would show up, which often didn't happen. For films with large and avid core audiences, filmmakers should make sure that they can effectively reach the core audience first, and then build on that base of support to cross their film over as widely as possible. *My Big Fat Greek Wedding*, *Monsoon Wedding* and *Y Tu Mama Tambien* each attracted core audiences to theatres, enabling them to stay on screens long enough to reach a general audience. Films with avid core audiences may be successful even if they don't cross over, if members of the core audience buy enough tickets and DVDs.

A Personal Audience – Conceptually there are three audiences — the core audience, the general audience and the filmmaker's personal audience. In the past, filmmakers had little knowledge of and few direct connections to their audience. However loyal their regular viewers, they were for the most part anonymous. Today's filmmakers have an unprecedented opportunity to build and nurture a personal audience. Thanks to the Internet, filmmakers can now have a much more direct connection to a personal audience, made up of individuals they can communicate with.

This audience is built one name at a time — it includes everyone who e-mails you

Peter Broderick
upwards@earthlink.net
www.peterbroderick.com

about your film, everyone who registers at your website, and everyone who buys a copy of a film from your site. This personal audience should also include everyone you meet while making and launching your film. At first this group's size may seem insignificant (in the tens or hundreds), but it may increase to thousands before long and, after several films, could reach tens of thousands.

Each member of this audience can buy a ticket and encourage others to see your film in theatres, and later buy the DVD for themselves or friends. Filmmakers sending out periodic updates to their personal audience should be able to create a sense of connection and loyalty. Filmmakers may be able to carry much of this audience to their next projects. They can also benefit from direct feedback from this audience: e.g. reactions to the film in theatres may help filmmakers decide on the best extras for the DVD.



A New Era

Independent filmmakers now have unprecedented opportunities. Digital production is shifting the balance of power from financiers to filmmakers. Filmmakers who can make movies digitally at lower budgets are no longer wholly dependent on financiers for the resources and permission to make their films. Likewise, new distribution models are freeing them from dependence on a traditional distribution

system that has been failing them. Powerful digital distribution tools — the DVD, digital projectors and the Internet — are empowering independents to increasingly take their fate in their own hands and have a more direct relationship with their audiences. By effectively using these tools, filmmakers will be able to not only maximize the distribution opportunities for their current films, but also find investors for subsequent projects designed to reach core audiences. These tools will also enable them to build and nurture a personal audience, which could ensure a long and fulfilling career.



Peter Broderick is president of Paradigm, which provides consulting services to filmmakers and media companies. He previously was founder and President of Next Wave Films, which helped launch the careers of filmmakers from the U.S. and abroad, and played a key role in the growth of the ultra-low-budget feature movement.

A leading advocate of digital moviemaking, Broderick has given presentations on digital production at Cannes, Sundance, Toronto, Berlin and many other festivals. He has lectured at Harvard, taught courses at UCLA, and written articles for *Scientific American*, *The New York Times*, *The Economist* and *The Los Angeles Times*. He began his film career working with Terrence Malick on *Days of Heaven*. A graduate of Brown University, Cambridge University, and Yale Law School, he practiced law in Washington, D.C.

Related Items:

•

Peter Broderick
upwards@earthlink.net
www.peterbroderick.com